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SUBJECT: GREECE'S 1975 BALANCE OF PAYMENTS

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C) 75 ATHENS 8912 D) 75 ATHENS 8912

E) 75 ATHENS 8650 F) BONN 2564

SUMMARY: PRELIMINARY DATA ON THE 1975 GREEK BALANCE OF PAYMENTS HAVE BEEN RELEASED AND EMBASSY HAS BEEN ABLE TO CLARIFY CERTAIN ASPECTS IN COURSE OF DISCUSSIONS WITH BANK OF GREECE OFFICIALS. EXPORTS INCREASED TEN PERCENT DURING THE YEAR, WHILE IMPORTS WERE UP ONLY 5 PERCENT. A TWO PERCENT INCREASE BROUGHT THE TRADE DEFICIT TO A RECORD HIGH OF \$2.9 BILLION, SLIGHTLY BELOW EARLIER EXPECTATIONS. NET INVISIBLES INCREASED A HEALTHY 16 PERCENT TO \$1.9 BILLION, LED BY AN IMPRESSIVE SURGE IN TOURISM (UP 43 PERCENT TO \$622 MILLION) AND BETTER THAN EXPECTED SHIPPING

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EARNINGS (\$844 MILLION). BANK OF GREECE FIGURES REFLECT A CURRENT ACCCOUNT DEFICIT OF ONE BILLION DOLLARS, BUT

A SIGNIFICANT ERRORS AND OMISSIONS FIGURE (\$220 MILLION) INCREASED SUBSTANTIALLY THE AMOUNT TO BE FINANCED BY THE CAPITAL ACCOUNT. PRIVATE CAPITAL INFLOWS HELD UP WELL DUE TO INCREASES IN SUPPLIER CREDITS AND FOREIGN EXCHANGE DEPOSITS, AND OFFICIAL BORROWING OF ABOUT \$635 MILLION PREVENTED A DRAW-DOWN IN REH RELATIVELY LOW LEVEL (TWO MONTHS' EQUIVALENT) OF FOREIGN EXCHANGE RESERVES. THE GOG IS PROCEEDING WITH PLANS TO RESTRUCTURE THE ECONOMY, WITH A HEAVY EMPHASIS ON EXPORTS AND IMPORT SUBSTITUTION. IN THE SHORT RUN, HOWEVER, GREECE WILL REMAIN HEAVILY DEPENDENT ON OFFICIAL BORROWING-AND IN 1976 GREEK OFFICIALS ARE HOPEFUL THAT BILATERAL ASSISTANCE (ESPECIALLY FROM PRESIDENT FORD'S PROPOSED \$225 MILLION PACKAGE) AND MULTILATERAL SOURCES SUCH AS THE IMF AND OECD WILL HELP MINIMIZE THE COST TO SOCIAL AND DEVELOPMENT PROGRAMS OF CLOSING THE GAP. THE RELEASE OF MORE DETAILED AND REFINED FIGURES IN ABOUT SIX TO EIGHT WEEKS WILL ENABLE THE EMBASSY TO SUBMIT A MORE COMPREHENSIVE REPORT, ALONG WITH AN UPDATE ON PROSPECTS FOR 1976 (REFS B AND E). END SUMMARY

1. THE BANK OF GREECE RECENTLY PUBLISHED PRELIMINARY 1975 BALANCE OF PAYMENTS FIGURES WHICH FORM THE BASIS OF THE REPORT WHICH FOLLOWS. THE EMBASSY HAS ALSO TAKEN INTO ACCOUNT AS YET UNPUBLISHED BANK OF GREECE DATA ON SIZABLE YEAR-END ADJUSTMENTS (MADE ANNUALLY) FROM THE CAPITAL TO THE INVISIBLE ACCOUNT OF PRIVATE DEPOSITS MADE IN FOREIGN EXCHANGE BUT SUBSEQUENTLY DRAWN IN DRACHMAS.

2. THE TRADE ACCOUNT-A WIDELY EXPECTED INCREASE IN THE RATE OF GROWTH OF IMPORTS DURING THE LAST TWO MONTHS OF 1975-DUE TO THE MODEST IMPROVEMENT IN THE GREEK ECONOMY-FAILED TO MATERIALIZE, AND IMPORTS FOR THE YEAR INCREASED IN VALUE ONLY FIVE PERCENT FROM THE 1974 LEVEL TO \$4.9 BILLION--WHICH MEANS IN VOLUME TERMS AN ACTUAL DECLINE. ALTHOUGH DETAILED FIGURES ARE NOT YET AVAILABLE, WE UNDERSTAND FROM BANK OF GREECE OFFICIALS THAT MAJOR CATEGORIES SUCH AS OIL, IRON, AND CERTAIN LIMITED OFFICIAL USE
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AGRICULTURAL IMPORTS WERE AT A LOW LEVEL FOR NOVEMBER AND DECEMBER-PERHAPS REFLECTING CONTINUED SLACKNESS IN INVESTMENT, AS WELL AS SOME PROGRESS IN THE IMPORT SUBSTITUTION EFFORT. EXPORTS REACHED \$1.96 BILLION, TEN PERCENT ABOVE 1974, DESPITE A 15 PERCENT DROP IN DECEMBER COMPARED TO DECEMBER 1974. GREEK OFFICIALS BELIEVE THAT THE DECEMBER FIGURES WERE ANOMALOUS, AND HOPE THAT THE FLOATING OF THE DRACHMA (WHICH LAST YEAR RESULTED IN SUBSTANTIAL DE FACTO DEVALUATION AGAINST MAJOR TRADE PARTNERS), A REDOUBLED COMMERCIAL PROMOTION

EFFORT IN NEW MARKETS (ESPECIALLY THE MIDDLE EAST), AND THE GRADUAL RECOVERY WHICH HAS BEEN PREDICTED FOR WESTERN EUROPE, WILL BOOST GREECE'S OVERSEAS SALES IN 1976. THE OVERALL TRADE DEFICIT TOTALLED SLIGHTLY OVER \$2.9 BILLION, A RECORD LEVEL, BUT STILL ONLY TWO PERCENT OVER 1974 AND FOUR PERCENT OVER 1973.

3. INVISIBLES AND THE CURRENT ACCOUNT DEFICIT: INVISIBLES PROVIDED THE BRIGHTEST SPOT IN THE 1975 GREEK BALANCE OF PAYMENTS. TOURIST RECEIPTS (GROSS) FAR EXCEEDED GREEK PROJECTIONS MADE IN EARLY 1975 AND TOTALLED \$622 MILLION- A 43 PERCENT INCREASE OVER THE PREVIOUS YEAR. GREEK OFFICIALS EXPECT AN EVEN BETTER YEAR IN 1976 AND, ASSUMING RELATIVE CALM IN GREEK-TURKISH RELATIONS, WE BELIEVE THAT THEIR HOPES WILL BE REALIZED. IMMIGRANT AND WORKERS' REMITTANCES EXCEEDED THE 1974 FIGURE BY 14 PERCENT, REACHING \$734 MILLION. SHIPPING REMITTANCES DROPPED 3.5 PERCENT IN 1975, A RELATIVELY GOOD PERFORMANCE GIVEN THE WORLD-WIDE SHIPPING SLUMP, AND TOPPED ALL INVISIBLE CATEGORIES WITH GROSS RECEIPTS OF \$844 MILLION. INVISIBLE PAYMENTS WERE BELOW PROJECTIONS AND EXCEEDED 1974 PAYMENTS BY ONLY THREE PERCENT. RESULTANT NET INVISIBLES REACHED \$1.9 BILLION, 16 PERCENT ABOVE 1974. ACCORDING TO BANK OF GREECE FIGURES, THE CURRENT ACCOUNT BALANCE BARELY EXCEEDED \$1 BILLION...HOWEVER, THE SIZABLE (\$220 MILLION) ERRORS AND OMISSIONS ENTRY WHICH PROBABLY INCLUDED SOME HIDDEN CURRENT ACCOUNT OUTFLOWS (INCLUDING MILITARY EXPENDITURES) BROUGHT THE ACTUAL DEFICIT TO BE FINANCED BY NET CAPITAL INFLOWS TO \$1.22 BILLION.

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FM AMEMBASSY ATHENS

TO SECSTATE WASHDC PRIORITY 2797
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4. CAPITAL ACCOUNT: DETAILED FIGURES ON THE CAPITAL ACCOUNT ARE NOT YET AVAILABLE AND THE INFORMATION IN PARAS 4 AND 5 IS BASED LARGELY ON CONVERSATIONS WITH BANK OF GREECE OFFICIALS. PRELIMINARY FIGURES SHOW TOTAL PRIVATE AND OFFICIAL CAPITAL INFLOW (BEFORE AMORTIZATION) OF \$1.6 BILLION, A 30 PERCENT INCREASE OVER LAST YEAR. NET CHANGE IN FOREIGN SUPPLIERS CREDITS AND DEPOSITS IN FOREIGN EXCHANGE, TWO MAJOR CATEGORIES, HELD UP AS EXPECTED THROUGH THE YEAR'S END, ENABLING PRIVATE INFLOWS TO REACH ABOUT \$965 MILLION. ONE NOTABLE FEATURE OF THE CAPITAL ACCOUNT WAS THE 90 PERCENT JUMP IN AMORTIZATION (PUBLIC AND PRIVATE) TO \$336 MILLION. GOG AND BANK OF GREECE OFFICIALS ATTRIBUTE THE BULK OF THE INCREASE TO THE FALLING DUE OF PAYMENTS ON EARLIER OFFICIAL BORROWING. THE GROWING DEBT SERVICE OBLIGATION WILL CONTINUE TO POSE A PROBLEM FOR AT LEAST THE NEXT FEW YEARS, UNTIL THE GOG SUCCEEDS IN REDUCING SIGNIFICANTLY ITS DEPENDENCE UPON OFFICIAL BORROWING--ONE OF THE GOALS OF THE FIVE YEAR PLAN (1976-80) CURRENTLY UNDER PREPARATION.

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5. OFFICIAL FINANCING: DUE TO FAVORABLE DEVELOPMENTS IN THE TRADE AND INVISIBLE ACCOUNTS, GOG WAS ABLE TO HOLD OFFICIAL BORROWINGS BELOW EARLIER ANTICIPATED LEVELS. NONETHELESS PRELIMINARY FIGURES SHOW A TOTAL OF \$635 MILLION (BANK OF GREECE \$532 MILLION, GREEK STATE \$90 MILLION, D PUBLIC ENTERPRISES \$13 MILLION), AN INCREASE OF ALMOST 30 PERCENT OVER 1974. THIS FIGURE IS ROUGHLY COMPARABLE TO TWO-THIRDS OF OUTSTANDING ASSETS IN GOLD AND CONVERTIBLE CURRENCIES, WHICH ROSE SEVEN MILLION DOLLARS TO \$911 MILLION IN 1975, SLIGHTLY OVER THE LEVEL REQUIRED FOR TWO MONTHS IMPORTS. THE MOST IMPORTANT SOURCES OF 1975 OFFICIAL BORROWING (ACCORDING TO BANK OF GREECE OFFICIALS) ARE AS FOLLOWS: \$334 MILLION FROM EURODOLLAR BORROWING; \$93 MILLION FROM GERMAN COMMERCIAL BANKS; IMF OIL FACILITY \$145 MILLION; IMF CREDIT TRANCHE \$41 MILLION; AND GERMAN STATE LOAN \$22 MILLION. THE LARGEST PART OF A TOTAL OF ABOUT \$50 MILLION FOR THE FINANCING OF AGRICULTURAL COMMODITIES AND APPROXIMATELY \$30 MILLION FROM THE IBRD AND EUROPEAN INVESTMENT BANKS WILL ALSO BE INCLUDED UNDER OFFICIAL BORROWING. (NOTE THAT

THE SUM OF THE ABOVE BORROWINGS BY SOURCES SHOWS INFLOWS OF \$715 MILLION; RATHER THAN \$635 MILLION. A PORTION OF THE CREDIT LYONNAIS EURODOLLAR LOAN, WHICH ACCORDING TO LOAN AGREEMENT HAD TO BE DRAWN IN ITS ENTIRETY BY YEAR'S END, WAS APPLIED TO AN \$80 MILLION REPAYMENT ON THE 1973 FIRST BOSTON-MANUFACTURERS HANOVER-FIRST CHICAGO REVOLVING CREDIT, WHICH CAN BE DRAWN AGAIN AS LATE AS 1977. STATISTICALLY, THIS AMOUNT DOES NOT APPARENTLY FIGURE IN THE 1975 BALANCE OF PAYMENTS IN THE BORROWING AND REPAYMENT ACCOUNTS--AS ONE WOULD EXPECT-- BUT RATHER WAS TREATED AS A WASH TRANSACTION IN BANK OF GREECE DEPOSITS.

6. 1976 FINANCING PROSPECTS-GREEK OFFICIALS WOULD PREFER NOT TO RESORT TO NEW EURODOLLAR BORROWING IF THEY CAN AVOID IT IN 1976. IN TERMS OF POTENTIAL FOR 1976, POSSIBILITIES INCLUDE: (1) THE PROPOSED \$225 MILLION U.S. LOAN PACKAGE, PLUS SIGNIFICANT COMMODITY CREDIT CORPORATION ASSISTANCE AND POSSIBLE EXIMBANK FINANCING: (2) THE AS-YET-UNDRAWN \$100 MILLION CHASE EURODOLLAR LOAN AND THE \$80 MILLION LIMITED OFFICIAL USE

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FIRST BOSTON CREDIT REFERRED TO ABOVE: (3) UP TO \$50 MILLION FROM THE 1974 DM 180 MILLION GERMAN STATE LOAN PLUS UNDETERMINED, BUT LIMITED, GERMAN MILITARY ASSISTANCE (REF F): (4) FIVE MILLION DOLLARS FROM THE 1975 FRENCH GOVERNMENT LOAN: (5) FURTHER IMF CREDIT TRANCHE DRAWINGS, ABOUT FIVE MILLION DOLLAR BALANCE FROM THE RECENT ENLARGEMENT OF THE FIRST TRANCHE AND MAXIMUM OF \$46 MILLION IN SECOND: (6) A STILL UNCERTAIN \$40-\$60 MILLION WHICH GREECE HAS NOT YET BEEN ABLE TO DRAW FROM THE 1975 IMF OIL FACILITY: (7) THE OECD "SAFETY NET" WHICH HAS NOT YET EVEN BEEN OFFICIALLY ESTABLISHED, AND (8) IBRD AND EUROPEAN INVESTMENT BANK ASSISTANCE WHICH IS IN THE PIPELINE (FUNDS WHICH ARE PROJECT TIED). THE U.S. PACKAGE IS OBVIOUSLY A MOST IMPORTANT ELEMENT IN THE 1976 BALANCE OF PAYMENTS EQUATION.
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